

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

Annual Compliance Report, 2016

Docket No. ACR2016

CHAIRMAN'S INFORMATION REQUEST NO. 13  
AND NOTICE OF FILING UNDER SEAL

(Issued February 3, 2017)

To clarify the basis of information provided by the Postal Service in its FY 2016 Annual Compliance Report (ACR), filed December 29, 2016,<sup>1</sup> the Postal Service is requested to provide written responses to the following questions. Answers should be provided to the individual questions as soon as they are developed, but no later than February 10, 2017.

**Service Performance**

1. In Docket No. ACR2015,<sup>2</sup> the Postal Service reports the percentage of External First-Class (EXFC) First-Class Mail Single-Piece Letters/Postcards with origin processing delays for October 1, 2015, through June 21, 2016. Please provide this information for the remainder of FY 2016 in the response format used in Figure 7. *Id.*
2. With respect to *each* End-to-End Standard Mail product, with a 6-10-day service standard, please provide the following information for FY 2015 and FY 2016:
  - a. the volume,

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<sup>1</sup> United States Postal Service FY 2016 Annual Compliance Report, December 29, 2016 (FY 2016 ACR).

<sup>2</sup> Docket No. ACR2015, Second Response of the United States Postal Service to Commission Requests for Additional Information in the FY 2015 Annual Compliance Determination, Service Improvement Plan, June 27, 2016, at 10.

- b. the percentage based on the total Standard Mail volume that is End-to-End and has a 6-10-day service standard,
  - c. the number of highway trips that are more than 4 hours late, disaggregated by quarter,
  - d. a detailed description of the processing flow, and
  - e. a detailed description of the applicable tracking reports and databases used by the Postal Service to gain visibility into the processing flow.
3. Please refer to the Responses of the United States Postal Service to Questions 1-5 and 7-21 of Chairman's Information Request No. 1, January 10, 2017, questions 10.a. and 10.b. Please provide the information and data in an Excel file format.

### **Financial Analysis**

4. Referring to the Revenue Pieces and Weight reports for Quarter 4 FY 2015 and Quarter 1 FY 2016:<sup>3</sup>
- a. Please confirm that total mail volume (piece count) was 4.9 billion pieces (or 13 percent) higher in Quarter 1 FY 2016 than it was in Quarter 4 FY 2015.
  - b. Please confirm that total mail weight was approximately 1.2 billion pounds (or 22 percent) more in Quarter 1 FY 2016 than it was in Quarter 4 FY 2015. If not confirmed, please provide the accurate difference in pounds and percentage increase.
  - c. Please confirm that, by weight, competitive mail accounted for approximately 31.5 percent of total mail in Quarter 4 FY 2015, and approximately 36.7 percent of total mail in Quarter 1 FY 2016. If not confirmed, please provide the correct shares in each quarter.

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<sup>3</sup> See Library Reference USPS-FY16-42, December 29, 2016, Excel file "Fy2016\_RPWsummary report\_public.xlsx."

- d. Please confirm that, by weight, competitive mail accounted for 60 percent of the quarter-to-quarter increase quantified in question 1.b. If not confirmed, please provide the correct competitive share of the pound increase (defined as the quarterly change in competitive pounds divided by the quarterly change in total pounds).
  - e. Please confirm that Parcel Select alone accounted for 43 percent of the quarter-to-quarter increase quantified in question 1.b. If not confirmed, please provide the correct Parcel Select share of the pound increase (defined as the quarterly change in competitive pounds divided by the quarterly change in total pounds).
  - f. Please state whether the Postal Service agrees that the majority of the quarter-to-quarter differences identified in this question are due to seasonal factors, as opposed to a secular trend.
5. Please explain in detail whether and how the costing principles and methodologies underlying cost attribution differ in Quarter 1, relative to Quarters 2 through 4.<sup>4</sup>
6. Referring to Library Reference USPS-FY16-32, December 29, 2016, and analogous files from previous years.
- a. Please confirm that there are three types of special purpose routes (SPR): 86 ("Exclusive Parcel Post"), 87 ("Collection"), and 98 ("Other").
  - b. For each such route type, please describe the purpose of the routes in that category as well as how they are managed, including the frequency with which they are used, their similarity to or differences from regular city carrier routes, and other factors that the Commission might deem relevant to evaluating the cost attribution associated with special purpose routes.
  - c. Please confirm that neither the public library references filed in Docket

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<sup>4</sup> See Library Reference USPS-FY16-42.

No. ACR2016 nor public library references in other dockets contain a quarterly breakdown of cost accrual for each type of SPR. If not confirmed, please specify a public source where a quarterly breakdown is documented. If confirmed, please provide a quarterly breakdown of costs for each route type.

- d. Please confirm that the "street costs" portion of SPR types 86, 87, and 98 are treated identically in terms of ultimate cost attribution. If not confirmed, please describe any differences between the cost attribution practices for the three SPR types.
7. Please refer specifically to the costs in SPR type 86 ("Exclusive Parcel Post") for the following:<sup>5</sup>
- a. Please explain the purpose and usage of this type of SPR. In particular, specify the extent to which the routes are regular, following a pre-specified sequence and schedule, and the extent to which they are used on an as needed basis in response to variation in mail volumes. Please also specify the extent to which these costs are accrued on various days of the week.
  - b. If and when SPRs follow a pre-specified route, such as an existing letter route, at what share (on average) of the delivery points on that route does the letter carrier stop?
  - c. Please confirm that between FY 2008 and FY 2013, the total accrued costs for SPR type 86 never exceeded \$83 million in any single year. If not confirmed, please provide the single-year maximum during that 6-year period for total accrued costs on SPR type 86.
  - d. Please confirm that in FY 2016, the total accrued costs on SPR type 86 were nearly \$187 million. If not confirmed, please provide the total accrued costs on SPR type 86 in FY 2016 to the nearest million.

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<sup>5</sup> See Library Reference USPS-FY16-32.

- e. Please confirm that between FY 2008 and FY 2013, the share of total accrued costs on special purpose routes that was accrued on type 86 ("Exclusive Parcel Post") SPRs did not exceed 17.2 percent in any given year. If not confirmed, please provide the single-year maximum during that 6-year period for type 86 total accrued costs as a share of total SPR accrued costs.
  - f. Please confirm that in FY 2016, the total accrued costs on SPR type 86 accounted for 34.6 percent of total accrued SPR costs. If not confirmed, please provide the type 86 total accrued costs as a share of total SPR accrued costs in FY 2016.
  - g. Please describe any and all changes in methodology or costing principles relevant to the attribution of SPR costs in the past 5 years.
8. With regard to City Carrier Assistants:
- a. Please confirm that in its FY 2016 Annual Report to Congress, the Postal Service reported that it employed 40,436 City Carrier Assistants.<sup>6</sup>
  - b. Please identify where the costs associated with these employees appear in the cost reports filed in Docket No. ACR2016.
  - c. Please explain how and to what extent these costs have been attributed to individual reports.
9. Please refer to the Public Cost Segment and Component Reports from FY 2015 and FY 2016.<sup>7</sup> For each cost segment identified below, please provide the change in attributable cost per piece from FY 2015 to FY 2016 for: (1) total domestic market dominant mail; and (2) total domestic competitive mail, and explain any differences between the change in the attributable cost per piece for domestic market dominant and domestic competitive mail.

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<sup>6</sup> United States Postal Service FY 2016 Annual Report to Congress, Library Reference USPS-FY16-17, December 29, 2016, at 29.

<sup>7</sup> See Docket No. ACR2015, Library Reference USPS-FY15-2, December 29, 2015; Library Reference USPS-FY16-2, December 29, 2016.

- a. Cost Segment 3 Clerks and Mailhandlers
  - b. Cost Segment 7 City Delivery Carriers – Street Activity
  - c. Cost Segment 10 Rural Carriers
  - d. Cost Segment 11 Custodial and Maintenance Services
  - e. Cost Segment 14 Transportation
  - f. Cost Segment 18 Administration and Area Operations
10. Referring to the Public Cost Segment and Component Reports<sup>8</sup> and the Public Revenue, Pieces, and Weight Reports from FY 2014, FY 2015, and FY 2016.<sup>9</sup> Please confirm that on a per-pound basis, the change in total attributable costs by mail class from FY 2014 to FY 2016 is as follows:
- a. a 4.1 percent decrease for First-class mail
  - b. a 7.9 percent increase for Standard mail
  - c. a 5.5 percent increase for Periodicals
  - d. a 4.2 percent increase for Package services
  - e. a 23.2 percent decrease for Competitive Products

If not confirmed, please provide the correct percentage change from FY 2014 to FY 2016 in total attributable costs per pound, by class.

11. Please provide an explanation for the differences in the changes over the 2-year period in total attributable cost per pound. In other words, why did total attributable costs per pound for domestic competitive products decrease substantially over the last 2 years, while those for all other classes of mail, including market dominant package services, decreased less or increased over that same time period? Please list more than one reason if applicable.

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<sup>8</sup> See Docket No. ACR2015, Library Reference USPS-FY15-2; Library Reference USPS-FY16-2.

<sup>9</sup> See Docket No. ACR2014, Library Reference USPS-FY14-42, December 29, 2014; Docket No. ACR2015, Library Reference USPS-FY15-42, December 29, 2015; Library Reference USPS-FY16-42, December 29, 2016.

**Competitive Domestic Negotiated Service Agreements (NSAs)**

12. In its Annual Compliance Report, the Postal Service reported that thirteen domestic competitive negotiated service agreements (NSAs) failed to cover their attributable costs.
- a. The Postal Service stated it was renegotiating four of those thirteen domestic competitive NSAs: Priority Mail Contract 150 (Docket No. CP2016-12), Priority Mail Contract 183 (Docket No. CP2016-82), Priority Mail Contract 228 (Docket No. CP2016-228), and Parcel Return Service Contract 108 (Docket No. CP2015-73).<sup>10</sup> Please provide the status of the Postal Service's efforts to renegotiate these contracts.
- b. The Postal Service stated that, at the end of Quarter 1 of FY 2017, it intended to evaluate two of the thirteen domestic competitive NSAs that failed to cover costs, and take appropriate corrective action: Priority Mail Contract 160 (Docket No. CP2016-35) and Priority Mail Contract 214 (Docket No. CP2016-167). *Id.* The Postal Service states that it would monitor Priority Mail Contract 160 performance and renegotiate pricing if necessary. Please provide the status of the Postal Service's evaluation and findings, if any.

**Domestic Competitive NSAs**

13. Please see Attachment, filed under seal.
14. Please see Attachment, filed under seal.

**Service Performance**

15. Please see Attachment, filed under seal.

By the Chairman.

Robert G. Taub

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<sup>10</sup> FY 2016 ACR at 86-87. The Postal Service lists Parcel Return Service Contract 10 under the NSAs that it plans to evaluate at the end of Quarter 1 of FY 2017. *Id.* at 87. However, the Postal Service then states that it is renegotiating pricing and will terminate the contract if necessary. *Id.*